

BANGOR HOUSING COMMISSION
Bangor, Michigan

**FINANCIAL STATEMENTS
AND AUDIT REPORT**

September 30, 2005

Robert J. Tauriainen

Certified Public Accountant

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Bangor Housing Commission	County Van Buren
Fiscal Year End 9/30/05	Opinion Date 6-1-06	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

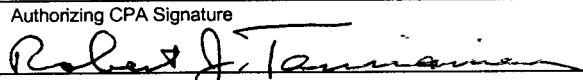
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Robert J. Tauriainen CPA		Telephone Number 248-476-8784	
Street Address 25140 Lahser Road, Suite 141, Southfield, Mi 48033		City Southfield	State Mi
Authorizing CPA Signature 		Printed Name Robert J. Tauriainen	License Number 8083

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Board of Commissioners
Bangor Housing
Commission
Bangor, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

Independent Auditor's Report

I have audited the accompanying basic financial statements of the Bangor Housing Commission, Bangor, Michigan, as of and for the year ended September 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the Bangor Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in finding number 1, I was unable to obtain a service organization report on the internal controls placed in operation and tests of operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

In my opinion, except for the effects of the matters discussed in the preceding paragraph, the basic financial statements, referred to above present fairly, in all material respects, the financial position of the Bangor Housing Commission, as of September 30, 2005, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 1, 2006 on my consideration of the Bangor Housing Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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Independent Auditor's Report

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB). I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Financial Data Schedule is presented for purposes of additional analysis as required by the Department of Housing and Urban Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Certified Public Accountant
June 1, 2006

**Bangor Housing Commission
Management, Discussion & Analysis
For Fiscal Year Ending September 30, 2005**

The purpose of this MD & A is to serve as a basic tool for reading and understanding the financial statements of the Housing Commission. The information presented here should be viewed in conjunction with the Commission's financial statements. The Housing Commission's books are reported using the full accrual method, which means that all revenues and expenses are taken into account regardless of when cash is received and/or paid out. The programs are funded directly by the United States Department of Housing and Urban Development.

The following summarizes the two programs that the Bangor Housing Commission operates on a daily basis.

Low Rent Public Housing

The Housing Commission completed its development in 1988 and currently owns 44 units that are provided to elderly/disabled and low-income individuals. The Commission is responsible for management, maintenance, utilities and various other tasks associated with operating the project. Each year, the Housing Commission applies for Operating Subsidy, which is funded at a level determined by HUD. In addition to tenant revenue, interest income and other miscellaneous income, the subsidy is used to provide safe and affordable housing to residents.

Capital Fund

The Housing Commission is awarded this grant each year, based on HUD's available funding. It is used to for physical improvement of the property and surrounding landscape. It may also be used for equipment such as dwelling equipment, office, maintenance and community room equipment. PHA's also have the option of drawing down funds in a line item called Operations.

Financial Highlights for the FY

- ** The assets of the PHA exceeded its liabilities at the close of the year by \$1,255,822.
- ** At the close of the fiscal year, the PHA's operating revenues totaled \$178,512 while the operating expenses totaled \$264,586.
- ** The PHA's cash and investment balances decreased by \$14,695 for FYE 09/30/05.

The financial statements included in this report are those of a non-profit enterprise fund engaged in a business-type activity. The following statements are included:

- Statement of Net Assets – reports on the Commission's current financial resources with capital and other assets and long-term debt obligations and other liabilities.
- Statement of Revenues, Expenses and Changes in Fund Net Assets-reports the Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- Statement of Cash Flows.

**Bangor Housing Commission
Management, Discussion & Analysis
For Fiscal Year Ending September 30, 2005**

Statement of Net Assets

Assets	2005	2004	Change
Cash/Investments	108,304	122,999	-14,695
Other Current Assets	18,701	20,656	-1,955
Capital Assets, Net	1,155,523	1,222,009	-66,486
Total Assets	1,282,528	1,365,664	-83,136
Liabilities			
Accounts Payable	3,908	4,050	-142
A/P-Other Gov't	6,544	6,710	-166
Other Current Liabilities	12,571	11,780	791
NonCurrent Liab.	3,683	2,916	767
Total Liabilities	26,706	25,456	1,250
Net Assets			
Invested in Capital Assets	1,155,523	1,222,009	-66,486
Unrestricted Net Assets	100,299	118,199	-17,900
Total Net Assets	1,255,822	1,340,208	-84,386

Total Assets for FYE 2005 total \$1,282,528, which is \$83,136 less than FYE 2004. Total Liabilities for FYE 2004 total \$26,706, which is \$1,250 more than FYE 2004.

Net Assets decreased \$84,386 from 2004 to 2005 due mainly to depreciation and no Capital Fund work started or completed in fiscal year.

**Bangor Housing Commission
Management, Discussion & Analysis
For Fiscal Year Ending September 30, 2005**

Statement of Revenues, Expenses and Changes in Fund Net Assets

Opr Revenues	2005	2004	Change
Tenant Revenue	108,362	106,457	1,905
Opr Grants/Subsidy	68,217	77,160	-8,943
Misc Revenue	1,933	1,701	232
Total Operating Revenues	178,512	185,318	-6,806
Opr Expenses			
Administration	54,273	42,606	11,667
Tenant Services	2,153	2,196	-43
Utilities	30,366	26,598	3,768
Maintenance	78,418	71,954	6,464
General	21,118	27,650	-6,532
Depreciation	78,258	78,478	-220
Extraordinary Maint.			
Total Expenses	264,586	249,482	15,104
Opr Income/(Loss)	-86,074	-64,164	-21,910
Nonoperating Revenues			
Interest Income	1,688	932	756
Income (Loss) before contributions/transfers	-84,386	-63,232	-21,154
Capital Grants	0	90,541	-90,541
Change in Net Assets	-84,386	27,309	-111,695
Total Assets-Beginning	1,340,208	1,312,899	27,309
Total Assets-Ending	1,255,822	1,340,208	-84,386

The total decrease in revenue is approximately 35% and is due to not receiving any Capital Fund grants this fiscal year. Tenant revenue and interest income both increased this year. The total increase in operating expenses is 9% with significant increases in administrative salaries, administrative benefits, compensated absences, water, gas and maintenance benefits. The expenses with the largest decreases were insurance and bad debts-tenants.

**Bangor Housing Commission
Management, Discussion & Analysis
For Fiscal Year Ending September 30, 2005**

Statement of Capital Assets

Land and Improvements	425,284
Buildings and Improvements	1,833,675
Equipment	90,990
Total Fixed Assets	2,349,949
Less: Accumulated Depreciation	1,194,426
Net Fixed Assets/Invested in Capital Assets	1,155,523

There were increases in building improvements and equipment in the amount of \$11,773 for the fiscal year ended September 30, 2005. The current year depreciation expense was \$78,258. The net effect is a decrease in net fixed assets of \$66,485.

The Housing Commission's financial success is dependent on operating and capital grants received from the US Dept of HUD. Without them, the Bangor Housing Commission could not survive. There are various local economic factors that could affect the Commission's profit or loss, such as local employment opportunities, supply and demand for local jobs and inflationary adjustments to utilities and other local suppliers.

The Housing Commission was considered troubled in past years and has made numerous changes to improve their financial situation. The PHAS score decreased from 25.63 to 22.389 in 2004 due to penalties for audit flags. The PHA again received a score of 0 in expense management area. In spite of decreasing capital and operating grants, the Bangor Housing Commission will continue to do the best job they can in providing safe, sanitary and decent housing for their residents.

Contacting The Commission's Financial Management

This report was written to provide readers with a general overview of the Commission's finances and the manner in which it spends the revenue it receives. If you have questions about this report or need additional financial information, contact the Executive Director, David L. Markel, at 820 Second Street, Bangor, MI 49013, or call (269) 427-5535.

Bangor Housing Commission
Statement Of Net Assets
September 30, 2005

Assets

Current assets:

Cash and cash equivalents	39,455
Investments	68,849
Receivables, net	2,934
Inventories	10,159
Other current assets	5,608
Total current assets	<u>127,004</u>

Noncurrent assets:

Capital assets:

Land	107,090
Buildings and equipment	2,242,860
Less accumulated depreciation	<u>(1,194,426)</u>
Capital assets, net	<u>1,155,523</u>

Total assets

1,282,528

Liabilities

Current liabilities:

Accounts payables	11,700
Security deposits	10,207
Deferred revenue	1,116
Compensated absences	368
Total current liabilities	<u>23,391</u>

Noncurrent liabilities:

Compensated absences	3,314
Total liabilities	<u>26,706</u>

Net Assets

Invested in capital assets, net of related debt	1,155,523
Unrestricted	<u>100,299</u>
Total net assets	<u>1,255,822</u>
Total liabilities and net assets	<u><u>1,282,528</u></u>

See Accompanying notes to financial statements

Bangor Housing Commission
Statement of Revenues, Expenses and Changes in Net Assets
September 30, 2005

Operating revenues:	
Charges to tenants	101,289
Investment income	1,688
Federal sources	68,217
Miscellaneous	9,006
Total operating revenues	<u>180,201</u>
Operating expenses:	
Administrative	54,273
Tenant services	2,153
Utilities	30,366
Maintenance	78,418
General expenses	21,118
Total operating expenses	<u>186,328</u>
Operating income (loss)	<u>(6,128)</u>
Nonoperating expenses:	
Depreciation	<u>78,258</u>
Total nonoperating expenses	<u>78,258</u>
Total expenses	<u>264,587</u>
Change in net assets	<u>(84,386)</u>
Total net assets - beginning	1,340,208
Total net assets - ending	<u><u>1,255,822</u></u>

See Accompanying notes to financial statements

Bangor Housing Commission
Statement of Cash Flows
September 30, 2005

Cash flows from operating activities:

Cash received from tenants	\$101,562
Other operating cash receipts	9,006
Cash paid for operating expenditures	(101,640)
Cash paid to employees for services	(74,543)
Payment in lieu of taxes	<u>(6,710)</u>

Net cash used in operating activities (72,325)

Cash flows from noncapital financing activities:

Operating grants received	68,217
Sale (purchase) of fixed assets	<u>(11,773)</u>

Net cash provided by noncapital financing activities 56,444

Cash flows from investing activities:

Net (increase) decrease in investments	(68,849)
Interest received (paid)	<u>1,186</u>

Net cash (used) provided in investing activities (67,663)

Net increase (decrease) in Cash and cash equivalents (83,544)

Beginning of period 122,999

End of period 39,455

Reconciliation of Operating Income to Net Cash used in Operating Activities

Operating Income (loss)	(6,128)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Interest received	(1,186)
Grants	(68,217)
Decrease (increase) in Accounts receivable:	
Tenants	(192)
Accrued receivables	(503)

See Accompanying notes to financial statements

Bangor Housing Commission
Statement of Cash Flows
September 30, 2005

Prepaid expenses:		
Supplies inventory	780	
Insurance, Misc. prepaid	1,871	
Increase (decrease) in		
Accounts payable:		
Trade	(142)	
Tenant security deposits	(310)	
Accrued liabilities:		
Wages and payroll taxes	327	
Payment in lieu of taxes	(167)	
Compensated absences	766	
Deferred revenue:		
Rents paid in advance	775	
Total adjustments		<u>(66,197)</u>
Net cash provided by (used in)		
operating activities -		<u><u>(\$72,325)</u></u>

See Accompanying notes to financial statements

Bangor Housing Commission
Notes To Basic Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies

The Bangor Housing Commission ("The Authority") is a non-profit corporation which was organized under the laws of the State of Michigan to provide Low-Rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies.

Low Rent Public Housing - Low income housing apartment developments. Funding for the developments was acquired through advances from HUD. The objective of the program is to provide decent, safe, and sanitary housing and related facilities for eligible low-income families and the elderly through the Public Housing Authority. Grants are made by HUD to the Authority on the basis of housing needs to ensure the lower income character of the developments operated by the Authority.

The Authority policy is to prepare its basic financial statements in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies follow.

A. Reporting Entity

All significant activities and organizations on which the Authority exercises oversight responsibility have been included in the Authority's financial statements, for the year ended September 30, 2005. This report includes all of the services provided by the Authority to residents within its boundaries. In evaluating the Authority's reporting entity, in accordance with GASB Statement No. 14, the Authority has included all organizations that make up the Authority's legal entity.

The following criteria regarding manifestation of oversight were considered by the Authority in its evaluation of the Authority organizations and activities:

Financial interdependency - The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

Appointment of the government authority - The Authority is governed by a Board of Commissioners, appointed by the local government, and has governance responsibilities over all activities related to Low-Rent housing within that community.

Designation of the Executive Director - The Board of Commissioners have decision making responsibility and the power to designate a Executive Director who administers Authority policies.

Bangor Housing Commission
Notes To Basic Financial Statements
September 30, 2005

Ability to significantly influence operations - The Board of Commissioners have the responsibility to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the Board of Commissioners and its designated Executive Director.

Component Units - Consistent with applicable guidance, the criteria used by the Authority to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. At September 30, 2005, the Authority had no component units which met that criteria.

B. Fund Type

The Authority uses enterprise fund accounting to account for its financial position and results of operations. The enterprise fund type was used because the Authority operations are financed and operated in a manner similar to private Business enterprises - where the intent of the Authority is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

C. Measurement Focus and Basis of Accounting

The Authority uses the economic resources measurement focus. Accordingly, all assets and liabilities are recorded on the statement of net assets. The reported net assets is segregated into capital assets net of related debt, unrestricted net assets and restricted net assets. Each component of net assets may be used to meet current obligations. Restricted net assets are subject to constraints externally imposed and are reduced by related liabilities. Operating statements present increases (revenues) and decreases (expenses) in net assets. The full accrual basis of accounting is used. Revenues are recognized when they are earned and become measurable and expenses are recognized when incurred, if measurable.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Housing Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Bangor Housing Commission
Notes To Basic Financial Statements
September 30, 2005

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Commission uses a single Enterprise Fund to maintain its financial records on an accrual basis.

D. Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with the financial statements are determined by the Authority's measurement focus and are accounted for in the Authority's enterprise fund.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net assets. Depreciation is provided over the estimated useful lives using the straight-line method.

E. Cash Equivalents

For purposes of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

F. Investments

Investments are reported at fair value. Investment securities are normally held to mature at par value and adjustments are made to the investment portfolio to reflect increases / (decreases) in gains made.

G. Receivables

All receivables are shown net of an allowance for uncollectible amounts.

H. Inventories and Other Items

Inventories consist of expendable supplies held for consumption. They are valued at cost (first-in, first-out), which is less than the current market value. An expenditure is recorded at the end of the fiscal year to reflect physical counts and supplies used (consumption method).

Certain payments to vendors reflect costs applicable to future periods. These items are recorded as prepaid items.

Bangor Housing Commission
Notes To Basic Financial Statements
September 30, 2005

I. Rental Income

A percentage of tenant income, as determined by HUD is used to determine income from rents and may not represent fair market rent.

J. Income Taxes

No provision for income taxes is recorded in the accounts as the Authority is a non-profit, tax exempt entity under the Internal Revenue Code. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

K. Interest expense

Interest expense on tax free notes and bonds and interest income on the related debt proceeds are capitalized during the project development period.

L. Deferred Revenue

HUD Grants, operating subsidy, HAP subsidy and tenants rents are recognized in the applicable program year.

M. Budgets

An operating budget is adopted each year by the Authority and depending on certain performance indicators, may or may not be approved by the Department of Housing and Urban Development.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Vacation Pay:

The Authority provides leave benefits for its employees based on comparable practices by local public bodies. The personnel policy provides that, upon termination, employees will be paid 50% of all unused sick leave upon termination.

At September 30, 2005 the Authority is contingently liable to employees for accumulated unpaid sick pay in the amount of \$3,682.71. This amount has been recorded in the financial statements.

Bangor Housing Commission
Notes To Basic Financial Statements
September 30, 2005

P. Insurance and Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

The Authority participates in the Michigan Housing Commission Risk Retention Alliance (MHCRRRA), a governmental group risk retention alliance that operates as a common risk management and insurance program for housing authorities. MHCRRRA is registered as a risk retention group and losses are shared with the group members. The Authority pays insurance premiums directly to MHCRRRA. The MHCRRRA provides insurance under which the members are covered for various types of risk including property, general liability, boiler and machinery, and public officials liability.

The MHCRRRA's underwriting and rate setting policies are established after consultation with insurance underwriters and the program administrator.

The Authority continues to carry commercial insurance for other risks of loss. There has been no significant reduction in insurance coverage from the coverage in the prior year.

(2) Cash and Investments:

Cash and investments are stated at cost, which approximates fair value, and at September 30, 2005 consisted of the following:

<u>Account</u>	<u>Low Rent</u>
Cash - General Fund (Development and/or Operation)	<u>39,454.51</u>
Total Cash	<u>\$39,454.51</u>
<u>Account</u>	<u>Low Rent</u>
Investments - General Fund and Security Deposit Fund	<u>68,849.00</u>
Total Investments	<u>\$68,849.00</u>

All investments have a maturity of over 3 months and are not considered cash equivalents.

Bangor Housing Commission
Notes To Basic Financial Statements
September 30, 2005

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Certificates of Deposit	06/25/2006	52,000.00
Certificates of Deposit	06/25/2006	<u>16,849.00</u>
Total Investments		<u>\$68,849.00</u>

Concentration of Credit Risk. Neither the Department of Housing and Urban Development or the Public Housing Authority places any limit on the amount the Public Housing Authority may invest in any one Depository. More than 5 percent of the Public Housing Authority's investments are with specific depository's. 79% of the Public Housing Authority's cash and investments are with the Fifth Third Bank and 21% with the West Michigan Bank.

(3) Accounts Receivable:

Accounts receivable at September 30, 2005 consist of the following:

<u>Account</u>	<u>Low Rent</u>
Accounts Receivable - Tenants	3,034.12
Accounts Receivable - Allowance for Doubtful Accounts - Tenants	(603.30)
Accrued Interest Receivable	<u>502.81</u>
Total Account Receivable	<u>\$2,933.63</u>

(4) Land, Structures and Equipment:

Development, Capital Fund Improvements and Land, Structures and Equipment balances at September 30, 2005 consisted of the following:

<u>Account</u>	<u>Low Rent</u>
Land	107,089.51
Buildings	1,823,801.29
Furniture, Equipment & Machinery - Dwellings	27,760.16
Furniture, Equipment & Machinery - Admin.	63,229.67
Leasehold Improvements	328,069.01
Accumulated Depreciation	<u>(1,194,426.28)</u>
Total Land, Structures and Equipment	<u>\$1,155,523.36</u>

The PHA capitalizes items costing at least \$500.00 with a life of more than one year.

Bangor Housing Commission
Notes To Basic Financial Statements
September 30, 2005

Depreciation is computed using the straight line method as follows:

Buildings	40 years
Land Improvements	5 to 20 years
Building Improvements	5 to 20 years
Dwelling Equipment	7 years
Furniture & Equipment	3 to 10 years
Non-Dwelling Structures	40 years

A summary of changes in fixed assets follows:

Balance September 30, 2004	\$1,222,008.72
Purchases thru Operations	11,773.00
Depreciation	<u>(78,258.36)</u>
Balance September 30, 2005	<u>\$1,155,523.36</u>

(5) Accounts Payable:

Accounts payable at September 30, 2005 consist of the following:

<u>Account</u>	<u>Low Rent</u>
Accounts Payable -	
Vendors and Contractor	3,907.81
Accounts Payable -	
PILOT	6,543.59
Accounts Payable -	
Payrolls, Deductions	
& Contributions	<u>1,248.78</u>
Total Accounts Payable	<u>\$11,700.18</u>

Accrued Payment in Lieu of Taxes is applicable to the Public Housing Program. The Authority is obligated to make annual payments in lieu of property taxes based on the lesser of assessable value times the current tax rate or 10% of the dwelling rents net of utilities expense.

Bangor Housing Commission
Financial Data Schedule
September 30, 2005

Account Description		Low Rent 14.850
Line		
	ASSETS:	
	CURRENT ASSETS:	
	Cash:	
111	Cash - unrestricted	39,455
112	Cash - restricted - modernization and development	-
113	Cash - other restricted	-
114	Cash - tenant security deposits	-
100	Total cash	39,455
	Accounts and notes receivables:	
121	Accounts receivable - PHA projects	-
122	Accounts receivable - HUD other projects	-
124	Accounts receivable - other government	-
125	Accounts receivable - miscellaneous	-
126	Accounts receivable- tenants - dwelling rents	3,034
126.1	Allowance for doubtful accounts - dwelling rents	(603)
126.2	Allowance for doubtful accounts - other	-
127	Notes and mortgages receivable- current	-
128	Fraud recovery	-
128.1	Allowance for doubtful accounts - fraud	-
129	Accrued interest receivable	503
120	Total receivables, net of allowances for doubtful accounts	2,934
	Current Investments	
131	Investments - unrestricted	68,849
132	Investments - restricted	-
142	Prepaid expenses and other assets	5,608
143	Inventories	10,159
143.1	Allowance for obsolete inventories	-
144	Interprogram - due from	-
146	Amounts to be provided	-
150	TOTAL CURRENT ASSETS	127,004
	NONCURRENT ASSETS:	
	Fixed assets:	
161	Land	107,090
162	Buildings	1,823,801
163	Furniture, equipment & machinery - dwellings	27,760
164	Furniture, equipment & machinery - administration	63,230
165	Leasehold improvements	328,069
166	Accumulated depreciation	(1,194,426)
160	Total fixed assets, net of accumulated depreciation	1,155,523
	Other non-current assets:	
171	Notes and mortgages receivable - non-current	-
172	Notes and mortgages receivable-non-current - past due	-
174	Other assets	-
175	Undistributed debits	-
176	Investment in joint ventures	-
180	TOTAL NONCURRENT ASSETS	1,155,523
190	TOTAL ASSETS	1,282,528
	LIABILITIES AND EQUITY:	
	Liabilities:	

Bangor Housing Commission

Financial Data Schedule

September 30, 2005

	Account Description	Low Rent 14.850
	Current Liabilities:	
311	Bank overdraft	-
312	Accounts payable < 90 days	3,908
313	Accounts payable > 90 days past due	-
321	Accrued wage/payroll taxes payable	1,249
322	Accrued compensated absences	368
324	Accrued contingency liability	-
325	Accrued Interest payable	-
331	Accounts Payable - HUD PHA Programs	-
332	Accounts Payable - PHA projects	-
333	Accounts payable - other government	6,544
341	Tenant security deposits	10,207
342	Deferred revenue	1,116
343	Current portion of L-T debt - capital projects	-
344	Current portion of L-T debt - operating borrowings	-
345	Other current liabilities	-
346	Accrued liabilities - other	-
347	Interprogram - due to	-
310	TOTAL CURRENT LIABILITIES	23,391
	NONCURRENT LIABILITIES:	
351	Long-term debt, net of current - capital projects	-
352	Non-current liabilities-compensated absence	3,314
353	Non-current liabilities-FSS & other	-
350	TOTAL NONCURRENT LIABILITIES	3,314
300	TOTAL LIABILITIES	26,706
	NET ASSETS:	
501	Investment in general fixed assets	-
	Contributed Capital:	
502	Project notes (HUD)	-
503	Long-term debt - HUD guaranteed	-
504	Invested in Net Assets Net of Related Debt	1,155,523
505	Other HUD contributions	-
507	Other contributions	-
508	Total Invested in Net Assets Net of Related Debt	1,155,523
	Restricted Net Asset Balance:	
509	Restricted for operating activities	-
510	Restricted for capital activities	-
511	Total Restricted Net Assets	-
512	Total Unrestricted Net Assets	100,299
513	TOTAL NET ASSETS	1,255,822
600	TOTAL LIABILITIES AND NET ASSETS	1,282,528
	REVENUE:	
703	Net tenant rental revenue	100,860
704	Tenant revenue - other	429
705	Total tenant revenue	101,289
706	HUD PHA Operating Grants	68,217
706.1	Capital Operating Grants	-
708	Other government grants	-
711	Investment income - unrestricted	1,688
712	Mortgage interest income	-
714	Fraud recovery	-
715	Other revenue	9,006
716	Gain or loss on sale of fixed assets	-
720	Investment income - restricted	-

Bangor Housing Commission

Financial Data Schedule

September 30, 2005

	Account Description	Low Rent 14.850
700	TOTAL REVENUE	180,201
	EXPENSES:	
	Administrative	
911	Administrative salaries	31,930
912	Auditing fees	1,700
913	Outside management fees	-
914	Compensated absences	766
915	Employee benefit contributions- administrative	8,239
916	Other operating- administrative	11,637
	Tenant services	
921	Tenant services - salaries	-
922	Relocation costs	-
923	Employee benefit contributions- tenant services	-
924	Tenant services - other	2,153
	Utilities	
931	Water	8,715
932	Electricity	10,763
933	Gas	10,888
934	Fuel	-
935	Labor	-
937	Employee benefit contributions- utilities	-
938	Other utilities expense	-
	Ordinary maintenance & operation	
941	Ordinary maintenance and operations - labor	26,400
942	Ordinary maintenance and operations - materials & other	13,096
943	Ordinary maintenance and operations - contract costs	30,622
945	Employee benefit contributions- ordinary maintenance	8,300
	Protective services	
951	Protective services - labor	-
952	Protective services- other contract costs	-
953	Protective services - other	-
955	Employee benefit contributions- protective services	-
	General expenses	
961	Insurance premiums	13,971
962	Other general expenses	-
963	Payments in lieu of taxes	6,544
964	Bad debt - tenant rents	603
965	Bad debt- mortgages	-
966	Bad debt - other	-
967	Interest expense	-
968	Severance expense	-
969	TOTAL OPERATING EXPENSES	186,328
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(6,128)
971	Extraordinary maintenance	-
972	Casualty losses - non capitalized	-
973	Housing assistance payments	-
974	Depreciation expense	78,258
975	Fraud losses	-
976	Capital outlays- governmental funds	-
977	Debt principal payment- governmental funds	-
978	Dwelling units rent expense	-
900	TOTAL EXPENSES	264,587

Bangor Housing Commission

Financial Data Schedule

September 30, 2005

	Account Description	Low Rent 14.850
	OTHER FINANCING SOURCES (USES)	
1001	Operating transfers in	-
1002	Operating transfers out	-
1003	Operating transfers from/to primary government	
1004	Operating transfers from/to component unit	
1005	Proceeds from notes, loans and bonds	
1006	Proceeds from property sales	
1010	TOTAL OTHER FINANCING SOURCES (USES)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(84,386)
	MEMO ACCOUNT INFORMATION:	
1101	Capital contributions	
1102	Debt principal payments - enterprise funds	
1103	Beginning Net Assets	1,340,208
1104	Prior period adjustments and Net Asset transfers	0
1105	Changes in compensated absence liability	
1106	Changes in contingent liability balance	
1107	Changes in unrecognized pension transition liability	
1108	Changes in special term/severance benefits liability	
1109	Changes in allowance for doubtful accounts - dwelling rents	
1113	Maximum annual contributions commitment (per ACC)	-
1114	Prorata maximum annual contributions applicable to a period of less than twelve months	
1115	Contingency reserve, ACC program reserve	-
1116	Total annual contributions available	-
1120	Unit months available	528
1121	Number of unit months leased	514

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Board of Commissioners
Bangor Housing
Commission
Bangor, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

I have audited the financial statements of the Bangor Housing Commission as of and for the year ended September 30, 2005 and have issued my report thereon dated June 1, 2006 which opinion was qualified because of the limitation of the scope of my audit. Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As discussed in finding number 1, I was unable to obtain a service organization report on the internal controls placed in operation and tests of operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

Internal Control Over Financial Reporting - In planning and performing my audit, I considered the Bangor Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Bangor Housing Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as finding # 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is a material weakness.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
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Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Bangor Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant
June 1, 2006

Summary of Auditor Results,
Schedule of Prior Audit Findings,
Schedule of Findings and Questioned Costs

Financial Statement

Type of auditor's report issued: qualified

Internal control over financial reporting

Material weakness(es) identified? Yes

Reportable condition(s) identified that are not considered to be material weaknesses?
none reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? no

Reportable condition(s) identified that are not considered to be material weaknesses?
no

Type of auditor's report issued on compliance for major programs: n/a

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Major programs: none

Dollar threshold used to distinguish between type A and type B program: \$300,000.00

Auditee qualified as low-risk auditee? no

Summary Schedule Of Prior Audit Findings

The audit report for the period ended September 30, 2004 contained one finding.

<u>Fiscal</u> <u>Year</u>	<u>Finding</u> <u>Number</u>	<u>CFDA</u>	<u>Finding</u>	<u>Comments</u>
2004	04-1	14.850	Service Organization Internal Controls	This finding is repeated

Findings and Questioned Costs

Financial Statement Findings

There are financial statement findings reported.

Findings Related to Federal Awards

There are no findings related to Federal Awards reported.

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<u>Public Housing Program 14.850</u>	<u>Finding No. 1</u> <u>Service Organization Report – Repeat Finding</u>	<u>None</u>

The PHA uses a service organization as part of its information system and the service organization affects the PHA's accounting records, supporting information, and specific accounts in the financial statements covered by the audit.

Professional standards require me to obtain an understanding of the controls in place by the service organization whose services were part of the PHA's information system. This understanding of the controls in place at the service organization requires the service organization to obtain a report, prepared by independent auditors, on the internal controls placed in operation and tests of operating effectiveness. The service organization has not provided this report to the PHA and I was unable to satisfy myself on the internal controls placed in operation, at the service organization, and tests of operating effectiveness, by other auditing procedures.

Because the service organization has not provided the report on internal controls placed in operation and tests of operating effectiveness, the PHA will receive a qualified opinion on its financial statements because of a limitation in the scope of my audit.

OMB-A133 states, "Subpart E—Auditors, §____. 500 Scope of audit..."

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<u>Public Housing Program 14.850</u>	<u>Finding No. 1</u> <u>No Service Organization Report</u>	<u>None</u>

(c) Internal controls. (1) In addition to the requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs.

(2) Except as provided in paragraph (c)(3) of this section, the auditor shall:

Plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program"

AU 324.12 states, "A service auditor's report on controls placed in operation at the service organization should be helpful in providing a sufficient understanding to plan the audit of the user organization. Such a report, however, is not intended to provide any evidence of the operating effectiveness of the relevant controls that would allow the user auditor to reduce the assessed level of control risk below the maximum. Such evidential matter should be derived from one or more of the following:

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<u>Public Housing Program</u> <u>14.850</u>	<u>Finding No. 1</u> <u>No Service Organization Report</u>	<u>None</u>

a. Tests of the user organization's controls over the activities of the service organization (for example, the user auditor may test the user organization's independent re-performance of selected items processed by a service organization or test the user organization's reconciliation of output reports with source documents.

b. A service auditor's report on controls placed in operation and tests of operating effectiveness, or a report on the application of agreed-upon procedures that describes relevant tests of controls.

c. Appropriate tests of controls performed by the user auditor at the service organization."

OMB requires the auditor to support a low assessed level of control risk. Generally Accepted Auditing Standards require that an assessed level of control risk, below the maximum, would require the testing of controls at the service organization.

Recommendation

I recommend that the PHA obtain the required service organization report.

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<u>Public Housing Program 14.850</u>	<u>Finding No. 1</u> <u>No Service Organization Report</u>	<u>None</u>

PHA Reply and Corrective Action Plan

Our fee accountant had assured us that they would obtain the required report in time for the current audit.

Recently our fee accountant informed us that they would not be obtaining the required report because of the e-mail received during our 2004 audit by the HUD Director of FASS-PH, which stated that a SAS 70 audit is not a HUD requirement.

Our fee accountant also informed us that no other auditors are following Statement on Auditing Standards Number 70 so our fee accountant feels that the Bangor Housing Commission should not have to comply either.

Another factor in our fee accountant declining to obtain the required SAS 70 audit is cost. SAS 70 audit proposals obtained by our fee accountant ranged from \$7,500 to \$30,000.

Point of contact is Dave Markel, Executive Director, Bangor Housing Commission, 820 Second Street, Bangor, Michigan 49013, Phone 269-427-5535.